

NIC Europe Group Driver Paper

Budapest, April 28 - 30. 2004.

## **Globalisation or Regionalisation?**

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## **Globalisation or Regionalisation?**

**Globalization—Which forces will predominate in 2020—regionalization or globalization and will focusing on one lead to neglect of the other? What will be Europe's position in the world in 2020 and how will areas of the world look from a distinctly European perspective?**

### **Introduction**

The debate about globalisation versus regionalisation is misleading: it is an obvious statement that the world is more complex than that. When we make simplifications like this, we assume that the loss of understanding is minimal: the world is more complex, but the simplification is such that the essence of the processes are still captured by our model. I will argue here that assumptions about today's world having two levels of organisation leaves out a very important factor; this in turn results in a misunderstanding.

I will argue that there are so many levels between national and global -- defined by socio-economic systems and subsystems -- that the best approximation is not to assume the existence of two levels, but rather a continuum of levels. This makes it theoretically rather difficult to capture the emergence of the global level. Nevertheless, I will also argue that we can expect to see the break-up of such a continuum either due to an internal systemic shock, the most likely being global socio-cultural instability, or an external one, the best candidate being a global environmental catastrophe. Such a shock will push some subsystems to a higher level and others to a lower level, and hence will result in a compartmentalisation of organisational levels, making it appear as if there were a higher, global, level and a lower, regional or sub-regional, one. Our currently malfunctioning two-level models will then make sense.

I will also argue that Europe has a chance of being a key actor in the emergence of the global socio-economic system. Europe has this ability thanks to its high human capital stock, its history of overcoming intercultural tensions, and its environment-friendly attitude. Whether, however, Europe will be able to live up to this opportunity depends on its ability to solve its current structural problems, to create a truly European identity, and to build efficient supra-national, European-level policy-making institutions. Europe's failure or success in achieving its global potential will determine how Europeans view the globalisation process.

**1. Regionalisation or Globalisation? The question is wrong, at least for now**

**Statement 1.1. There is a continuity of hierarchical levels in the socio-economic systems in which we live.**

The beginning of the 21<sup>st</sup> century is marked by several parallel integration processes among the socio-economic systems of the world. The internet is becoming a geographically global system, despite being out of reach for the majority of the world's population. The international trade system reaches almost everybody, although the average length of each link in this case is much shorter than that of the internet. The activities of national economies in some parts of the world have become increasingly regional, such as in the case of Europe, East Asia, or North America, while the Third World countries in Africa and South America are increasingly dependent on other regions without much success of intra-regional integration, despite occasional efforts. This economic regionalisation is accompanied by social and cultural ones: migration patterns in the Big Regions serve as ready evidence for that. In short, geographically there are many levels of organisation present.

Similarly, we find many different organisational levels when we look at the different sectors of the economy. Financial markets are arguably global, providing that we do not count those parts of the world where they do not exist. Capital flows are also global; the decline of the home-bias phenomenon (whereby people are more likely to invest in their home countries, despite there being superior investment opportunities in other parts of the world) is the best example. Energy flows and energy resources are also on a global level. Yet some other sectors of the economy operate on a lower level of organisation. With the exception of indulgences in exotic fruits and vegetables from the other end of the world, agricultural products are still on a local level, owing to the nature of the sector's technology as well as the continuing protectionist stance of the developed world. Manufacturing in its turn shows more a pattern matching the Big Regions than a truly global system.

Correspondingly, state-like functions – manifested either in explicit institutions or only implicitly – also appear on many levels. They range from national governments, through supra-national sub-regional organizations, such as flood monitoring agencies or commercial retail distributing networks, through regional organisations such as the EU, ASEAN, or NAFTA, through supra-regional sub-global groups such as the cooperation of leading central banks harmonising their monetary policy or the logistic systems of large multi-national companies, to the truly global ones such as those explicit state functions inherent in the UN family and implicit ones such as global technology standards.

Therefore we can conclude that the geographical or institutional delineations are not on either regional or global. Instead we find subsystems on almost every possible level. Hence, the theoretical framework that we assume in our questions about regionalisation and globalisation, although appealing in its simplicity, misses out on a possibly crucial factor. It seems to be a better approximation to assume that there exists a continuum of organisational levels between the national and global levels. However, this leaves us without an easily manageable framework.

**Statement 1.2. If shocks hit the global socio-economic system, they may push some levels of organisation upwards, and some others downwards, resulting in clearer delineations.**

Although today there is little knowledge in social sciences that could guide us in predicting how the quasi-continuum of organisational levels will change; we observe that there are looming shocks to the system, which can be expected to compartmentalise the organisational levels. This should be the reaction of any system to a significant enough shock: the systemic response forces the organisational levels with functions affected to the level of the shock. If the shocks arriving are global, then the compartmentalisation of the organisational levels will be towards a global one, and at least one that can be clearly distinguished on a lower level, whether that may be a regional or – more likely – a sub-regional level.

**Statement 1.3. The most likely challenges are socio-cultural instability and environmental catastrophes.**

From the current perspective, there appear to be two possible sources of these globally formative shocks.

First, the internal stability of the emerging global socio-economic system is in jeopardy due to the fact that some societies have been unevenly integrated into the global system: the economy being far ahead of culture in terms of integration. This results in a local socio-cultural instability, where a perceived or real danger of weakened identities prompts local cultures to ‘defend’ themselves from the emerging global culture. The widespread anti-globalisation movements, often veiled in anti-American or anti-Semitic new or renewed ideologies, the revival of religious fanaticism are all signs of this problem. Islamic fundamentalist terrorism is only one of the many symptoms, though an imminently dangerous one.

Second, it is clear that finding a sustainable way to co-exist with our biological environment will be a key challenge, and that this could be perceived as an external shock. A super-global system will emerge: one that incorporates the global society and the global ecosystem: the Biosphere. This global bio-social system will consist of a large set of feedback mechanisms, most of which are far from being in place. The learning process will take place both on the side of the Biosphere and the global society through either a series of small shocks or a number of catastrophes -- it is impossible to predict which. The general failure of the socio-economic responses to environmental problems to date would point to the catastrophe scenario, though the green political movement that has been growing since the late sixties launching of the first environment-focused global models offer some hope.

**Statement 1.4. A new theory will rise able to explain the emergence of socio-economic organisational levels and to incorporate the increased global societal variation as well as the new quality of relations between the global socio-economic system and the Biosphere.**

Our theoretical tool-box for approaching the emergence of the global organisational level is rather limited. Although national-level models of financial markets do not seem to be grossly inadequate for analysing global financial markets, other theories, such as

macroeconomics, originally designed to explain the national level economic processes, can be expected to face serious challenges. Just as there are phenomena that cannot be understood on a microeconomic level, e.g., inflation or monetary policy, there are also phenomena that can only be tackled on a global level. The type of shocks discussed above are two examples of global processes that are sufficiently important for us to expect a global economic theory to be able to tackle them. However, macroeconomics on a national level assumes a stable enough socio-cultural system, based on a fundamental cultural homogeneity, that can be left out of any economic argument. Macroeconomics – as we know it – is unable even to conceive the kind of socio-cultural instability that is present in today's global world.

Similarly, the relationship between the national level socio-economic system and the corresponding eco-system is of a different quality to the global one: local eco-systems can rely on the global buffers or shock absorbers that emerged during the globalisation of the ecosystems (the appearance of the Biosphere) that took place billions of years ago. Such buffers are luxuries that the global society, ipso facto, cannot count on. Until a couple of decades ago, there was no need to build the ecological link into our theories about the human society. Hence now, when faced with the global threat of environment catastrophes, our models leave us without much of a firepower.

In short, no global answers will be coming from our national level social sciences. We will have to have new theories: in economics, for instance, a kind of global macroeconomics, but a very different one: one that is capable of incorporating global issues such as social stability and the global environment. Both being fundamentally different problems from the national economy cases.

## **2. The choice for Europe: flourish and lead or limp and sink**

### **Statement 2.1. Europe is at a crossroads: it could be a region of lingering structural problems or the booming leader of the globalisation.**

I deliberately did not discuss technology in the globalisation chapter. Although it is a crucial factor in the globalisation process, getting into a debate as to whether the increased speed of technology development was a cause, a consequence, or a side-effect of the socio-economic globalisation would lead this paper to a diversion, albeit a very interesting one. Nevertheless, I intend to use a feature of technology-intensive economic globalisation: the reliance on human capital stock of any particular economic subsystem of the global economy. In fact Europe's strength lies in its potential to be the most human capital-rich Big Region of the world.

Although the North American, East Asian, and European developed economies have similar sizes of population, are characterized by quite similar human capital indicators, and hence have a comparable overall human capital stock, Europe stands out in its potential to integrate the well-educated economies in its geographical neighbourhood. The human capital characteristics of the EU's post-enlargement peripheries, for example of Ukraine and Russia, and also – although to a lesser extent – of Turkey, the Maghreb and some Middle Eastern countries, are up to the levels of the Big Regions. It would be difficult to pinpoint a comparable resource in the neighbourhoods of the other Big Regions – either in Latin America or in South East Asia, despite the much larger

populations. Should Europe be able to access and absorb its neighbouring human capital stocks, it could build the most technologically advanced economy and become the economic leader of the global world.

However, several problems stand in the way of easy success. The EU itself currently limits its access to these resources, either through its trade policies (such as the current EU oil-focus towards Russia) or owing to an unwillingness to deal with countries seen to have serious democratic deficits – although there is a tendency towards improvement in both South East Europe and the Maghreb. The absorption of new countries, however, assumes that the EU both overcomes its current economic structural problems and transforms its lame institutions into European level policy-making institutions that are capable of ensuring harmonised economic activities and, in foreign relations, of effectively representing a common European interest.

None of these problems will be easy to overcome. It would require a substantially altered thinking of European policy makers to recognise the opportunities at the European level and to assertively pursue their realisation. A transformed neighbourhood policy would require the recognition of a Big Region interest in incorporating the peripheral countries. Democratisation in the southern and eastern periphery requires an active policy from the EU that steps beyond the traditionally recognised national interests of individual EU member states. EU level institutional efficiency requires a loss of sovereignty of nations with historical sensitivities. Nevertheless, if these efforts fail, structural problems will prevail and Europe will miss its big chance.

**Statement 2.2. A strong Europe could play a crucial role in the global society meeting the new challenges.**

I argue that a strong Europe would be in the interest of a global society. European history and values could provide answers adequate to the emerging global challenges.

Whereas the North American melting pot is dominated by the Anglo-Saxon culture, and East Asia has yet to embark on a regional level societal integration, Europe is becoming a truly multicultural society. It has learned to cope with cultural differences, overcome historical cleavages, and knows how to use cooperation to smooth hostilities. If socio-cultural instability is indeed a necessarily emerging problem that accompanies the globalisation process, this set of skills could offer a solution.

This is by no means to suggest that the European way is the only way to meet the global challenges of weakening identities, and cultural instabilities. But Europe can at least offer experience in these fields and, should it also fulfil its economic potential, it may be able to make an important contribution to the global society.

Similarly, Europe's predisposition is useful in the case of another challenge, an environmental catastrophe. Europe's environment-friendly values are arguably stronger than those of north America (probably because Europe is a geographically tighter place), east Asia (since Europe's growth boom is over), and the developing world (since Europe's prosperity allows post-material values).

Hence, should a global environmental catastrophe occur, Europe would be an ideal candidate to lead an effective global response, assuming the capacity for European-level action and a legitimate global leadership building up the necessary global institutional

framework. Thus economic success and common foreign policy could be prerequisites of a European leading role in a global reaction to a global environmental challenge.

### **Concluding remarks**

Currently there are many levels of organisation of supra-national socio-economic systems -- a continuum rather than just global or regional ones. However, looming challenges, such as global socio-cultural instability and environmental catastrophes, could prompt the delineation of a clearer two-level system, with a global level and some lower organisational level. Alternatively, should there be a different set of shocks, or should these shocks have a very uneven geographical distribution, it is possible that the world would 'freeze into' a structure in which the highest organisational level is a regional one. Further, if no such shocks are manifested, the current continuum may linger on.

How the globalisation process will be seen in European eyes, though, will depend less on the globalisation process and more on Europe's role in it. If Europe is successful in consolidating its own strengths, it will regard the global world as – at least partially – its own creation. Should it fail, and it feel that its newly emerged identity will be threatened, it is more likely to see globalisation as a hostile process.